UNIVERSITY OF
REGINA

**University of Regina Non-Academic Pension Plan**

# Financial Statements

**For the Year Ended December 31, 2006**

**Provincial Auditor Saskatchewan**

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SASKATCHEWAN

## AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the University of Regina Non-Academic Pension Plan as at December 31, 2006 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and surplus of the Plan as at December 31, 2006 and the changes in net assets available for benefits and changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 25, 2007

Fred Wendel, CMA, CA
Provincial Auditor

**University of Regina Non-Academic Pension Plan**
**Statement of Net Assets Available for Benefits,**
**Accrued Pension Benefits and Surplus**
**As At December 31**

| | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Pooled fund (Note 5) | $ 70,929,144 | $ 63,510,279 |
| Receivables: | | |
| Employee contributions | 75,591 | 66,980 |
| Employer contributions | 75,274 | 66,980 |
| | 150,865 | 133,960 |
| Total assets | 71,080,009 | 63,644,239 |
| **Liabilities** | | |
| Accounts payable | 249,256 | 276,678 |
| Total liabilities | 249,256 | 276,678 |
| **Net Assets Available for Benefits (Statement 2)** | 70,830,753 | 63,367,561 |
| **Accrued Pension Benefits (Statement 3)** | 57,490,000 | 52,086,000 |
| **Surplus** | $ 13,340,753 | $ 11,281,561 |

Approved by the Board of Governors

M Bowden

Chair, Board of Governors

Vice President (Administration)

The accompanying notes are an integral part of these financial statements

**University of Regina Non-Academic Pension Plan**
**Statement of Changes in Net Assets Available for Benefits**
**For the Year Ended December 31**

| | 2006 | 2005 |
|---|---|---|
| **Increase in Assets** | | |
| Current period change in market values of investments: | | |
| Net realized gain on sale | $ 780,786 | $ 971,032 |
| Unrealized appreciation of investments | 7,912,123 | 4,340,758 |
| | 8,692,909 | 5,311,790 |
| Contributions: | | |
| Employee contributions | 922,065 | 804,704 |
| Employer contributions | 917,504 | 803,338 |
| | 1,839,569 | 1,608,042 |
| Total increase in assets | 10,532,478 | 6,919,832 |
| **Decrease in assets** | | |
| Plan expenses (Note 3) | 440,242 | 431,738 |
| Pension benefits | 1,717,130 | 1,651,221 |
| Refunds and transfers | 911,914 | 1,194,542 |
| Total decrease in assets | 3,069,286 | 3,277,501 |
| **Net Increase in Assets** | 7,463,192 | 3,642,331 |
| **Net Assets Available for Benefits, Beginning of Year** | 63,367,561 | 59,725,230 |
| **Net Assets Available for Benefits, End of Year (to Statement 1)** | $ 70,830,753 | $ 63,367,561 |

The accompanying notes are an integral part of these financial statements

## University of Regina Non-Academic Pension Plan
## Statement of Changes in Accrued Pension Benefits
## For the Year Ended December 31

| | 2006 (Note 4) | 2005 |
|---|---|---|
| **Accrued Pension Benefits, Beginning of Year** | $ 52,086,000 | $ 49,774,000 |
| **Increase in Accrued Pension Benefits:** | | |
| Interest on accrued benefits | 3,731,000 | 3,545,000 |
| Benefits accrued | 2,262,000 | 2,143,000 |
| Experience loss | 2,833,000 | - |
| | 8,826,000 | 5,688,000 |
| **Decrease in Accrued Pension Benefits:** | | |
| Benefits paid | 2,721,000 | 2,945,000 |
| Experience gain | - | 431,000 |
| Change in Assumptions | 701,000 | - |
| | 3,422,000 | 3,376,000 |
| **Accrued Pension Benefits, End of Year (to Statement 1)** | $ 57,490,000 | $ 52,086,000 |

The accompanying notes are an integral part of these financial statements

## 1. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policy is considered significant.

Investments

Investments are comprised of units in a pooled fund called the University of Regina Master Trust. Additional units are acquired when assets are transferred to the Fund and when distributions are made by the Fund. The Plan can realize changes in the underlying unit values by redeeming units.

Units in the pooled fund are recorded in the accounts at their net asset value per unit. The net asset value per unit is the market value of the pooled fund's investments divided by the total number of units outstanding in the Fund.

The change in net asset value of the Fund during the year is reflected in the Statement of Changes in Net Assets Available for Benefits as Unrealized appreciation (depreciation) of investments.

### Authority for the Plan

Section 62(j) of *The University of Regina Act* provides that the Board of Governors may establish a system of pension or retiring allowances for any or all classes of University officials and other employees.

## 2. Plan Administration

In January 1979, the Board of Governors of the University of Regina established the Pension Plan. The Non-Academic Benefits Committee is a sub-committee of the Board of Governor's Human Resources Committee and has the responsibility to administer the Plan according to the terms and provisions of the Plan agreement. The University has appointed, through agreements, investment managers to authorize investments, and a trustee to maintain custody of the plan assets and invest the plan assets as authorized by the investment managers.

### Description of the Plan

The following description of the University's Non-Academic Pension Plan is a summary only. For more information, reference should be made to the Plan document.

a) General

The Plan is a contributory defined benefit final average pension plan open to all non-academic employees of the University of Regina who are employed on a permanent full-time, seasonal full-time, term or permanent part-time basis. Participation in the plan is compulsory after completing an applicable probationary period.

Plan membership is extended to those employees who qualify from the federated colleges, Campion and Luther, and continues to be extended to the employees of the Mackenzie Art Gallery. There are 507 active members in the plan.

b) Retirement Benefits

The normal retirement date is the first day of the month following the attainment of age 65. The monthly retirement benefit payable to a Member who retires on the normal retirement date on or after January 1, 1999 is equal to the sum of:

i) 2% of the Member's average best three years earnings multiplied by the number of years of credited service (including fractions for completed months) for past and future service to December 31, 2010,

plus

ii) 1.75% of the Member's average best three years earnings with the University multiplied by the number of years of credited service (including fractions for completed months) after December 31, 2010.

The annual retirement benefit is based on maximum earnings of $105,550 as outlined in the *Income Tax Act* (Canada).

A Member who retires on the Late Retirement Date on or after January 1, 1999 shall receive a pension which is the Actuarial Equivalent of the pension the Member would have received had the Member retired on the Normal Retirement Date and as if the Normal Retirement Date is after December 31, 1998 as outlined above. Members must retire by the end of the calendar year in which they attain the age of 69.

The normal form of pension is a single life pension payable monthly in arrears with a ten year guarantee. Other options are available on an actuarially equivalent basis.

Unless the Member's spouse has signed a waiver under applicable legislation reducing survivor benefits for the spouse, an actuarially equivalent amount of pension shall be paid to the Member in a joint and 60% survivor form.

c) Indexing

Retirement benefit payments may be increased on an ad-hoc basis as recommended by the Non-Academic Employees' Benefit Committee, which is a sub-committee of the Board of Governor's Human Resources Committee, and approved by the Board as warranted by increases in the Consumer Price Index for Canada.

d) Termination Benefits

A Member becomes locked-in after completing two years of continuous service.

Upon termination of employment prior to becoming locked-in, a member may elect:

i) to receive a lump sum cash refund of the Member's required contributions with interest; or

ii) to transfer to another registered pension plan, a prescribed Registered Retirement Savings Plan (RRSP), an Insurance Business to purchase an immediate or deferred pension, or any other prescribed registered retirement plan an amount equal to the greater of two times the member's required contributions with interest and the Commuted Value of the monthly retirement benefit.

Upon termination of employment after becoming locked-in, a Member shall receive a transfer to another registered pension plan, a prescribed RRSP, an Insurance Business to purchase an immediate or deferred pension, or any other prescribed registered retirement plan of an amount equal to the greater of:

i) two times the member's required contributions plus interest and two times the member's Transfer Value plus Interest; and

ii) the Commuted Value of the monthly retirement benefit.

e) Death Benefits

i) Prior to Retirement

Upon death of a member, other than a retired member, the Member's spouse or beneficiary shall receive a lump-sum cash refund, a transfer to another registered pension plan, a prescribed RRSP, an Insurance Business to purchase an immediate or deferred pension, or any other prescribed registered retirement plan an amount equal to the sum of the Member's transfer value, accumulated with interest to the time of payout, plus the greater of the following:

A) two times the Member's required contributions plus interest, and

B) the Commuted Value of the monthly retirement benefit.

ii) After Retirement

Upon the death of a retired member, benefit payments, if any, shall be continued in accordance with the benefit payment option elected by the Member at the time of retirement.

f) Members' Contributions

Members are required to contribute 5.15% of earnings.

g) Funding Policy

The University shall contribute monthly to the fund 5.15% of earnings.

h) Interest Rate Credited

The interest credited to the members' and University contributions is the greater of: interest based on crediting the minimum rate prescribed under applicable Legislation and the four-year geometric average net fund rate of return averaged over the four most recently completed plan years, less 1.0% per annum.

i) Disability Benefits

Periods during which a Member is in receipt of disability benefits provided from the Short Term Disability Plan or the Long-Term Salary Continuance Plan count as pensionable service. Member contributions are deemed to be made on the Member's earnings immediately prior to becoming disabled adjusted each year thereafter by the average increase in the members who occupy a similar job or position to that member.

## 3. Plan Expenses

| | 2006 | | 2005 |
|---|---|---|---|
| | Budget | Actual | Actual |
| Actuarial and consulting services | $152,600 | $123,214 | $122,019 |
| Administration | 87,160 | 70,466 | 71,860 |
| Investment management fees | 204,800 | 212,728 | 204,948 |
| Trustee fees | 34,000 | 33,834 | 32,911 |
| | $ 478,560 | $440,242 | $431,738 |

## 4. Accrued Pension Benefits

Aon Consulting Inc., a firm of consulting actuaries, performed an actuarial valuation as at December 31, 2005 and extrapolated this to December 31, 2006. The actuary used the projected benefit method pro-rated on services and the best estimate assumptions approved by the Non-Academic Benefits Committee. Significant long-term assumptions used in the valuations were:

| | as at December 31 | |
|---|---|---|
| | 2006 | 2005 |
| Salary/YMPE increases | 3.0% | 4.5% |
| Inflation rate | 2.5% | 4.0% |
| Discount rate | 6.5% | 7.0% |

The actual rates may vary significantly from the long-term assumptions used. During the year, the Plan experienced a loss of $2,833,000 composed of a $600,000 loss for salary increases greater than assumed, a $608,000 loss due to decrements and other miscellaneous items, a $1,625,000 loss for the net change in liability due to credited interest on contribution balances different than assumed.

Mortality tables used were the UP 1994 projected to 2007 (2005-GAM 83 projected to 2012).

The Plan Document states that any excess surplus shall be used to reduce the contributions of the University, or used to improve the benefits of the Members and/or Retired Members, or both. Any use of surplus to reduce contributions of the University must be negotiated with the members as part of the collective agreement. Any use of surplus would be for the benefit of the members.

Upon termination or death of a member, the member, beneficiary or spouse shall receive a transfer as described in the description of the Plan at Note 2. The December 31, 2006 actuarial present value of accrued pension benefits in Statement 3 contains $353,930 (2005 - $326,714) related to members who have died or terminated. The University is attempting to transfer these amounts, but it is unknown how soon this will be accomplished as the transfer is dependent upon decisions to be made by the member, beneficiary or spouse.

The following illustrates the effects of changing certain assumptions:

| **Assumption:** | **Adjusted Assumption (Change Made):** | **Change in Accrued Liability** | **Percentage Change in Accrued Liability** |
|---|---|---|---|
| Discount rate | 7.5% (Plus 1%) | ($2,678,000) | (4.66%) |
| | 5.5% (Minus 1%) | $4,555,000 | 7.92% |
| Salary, YMPE, and *Income Tax Act* Maximum Pension increase | 4% (Plus 1%) | $1,008,000 | 1.75% |
| | 2% (Minus 1%) | ($410,000) | (0.71%) |
| Inflation rate | 3.5% (Plus 1%) | ($2,432,000) | (4.23%) |
| | 1.5% (Minus 1%) | $2,968,000 | 5.16% |

The pension obligation is long-term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling its pension obligation. Therefore, determination of the fair value of the pension liability is not practical.

## 5. Financial Instruments

The Plan's significant financial instruments consist of accounts receivable, accounts payable, and investments.

Accounts Receivable and Accounts Payable

The contributions receivable and accounts payable are non-interest bearing financial instruments and are due or payable within the next year. The receivable from the University of Regina bears interest at prime and is due within the next year. The Plan advanced cash to the University of Regina to help fund imminent payouts. Due to the short-term maturity, the fair value of these financial instruments approximates carrying value.

Investments

Effective December 1, 1995, the assets of the University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans were combined into a pooled fund called the Master Trust to improve investing opportunities. Each plan holds units in the Master Trust rather than holding individual investments.

The investment objectives of the Plan are to ensure there are sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Master Trust takes a long-term investment perspective.

As a result, the following risks of the Master Trust are also risks of the Plan.

a) Interest Rate Risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Master Trust's cash flows, financial position and income. This risk arises from short-term changes in nominal interest rates that cause differences in the timing and amount of cash flows related to the investments. Interest rate risk is managed by investing in fixed income investments of various durations.

b) Market Risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the markets. The plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Goals.

c) Credit Risk:

Credit risk arises from the potential for an investee to fail or for a counterparty (e.g. mortgager) to default on its contractual obligations to the Master Trust. The Master Trust limits the credit risk by dealing with counterparties that are considered to be high quality. The investment policies of the participating pension plans state that short-term investments must meet a minimum investment standard of "R-1", and the minimum quality standard for individual bonds and debentures is 'B' as rated by a recognized bond rating agency at the time of purchase. The credit ratings used to describe the investments are based

on the Dominion Bond Rating Service and/or the Standard and Poor's Bond Rating Service.

d) Foreign Currency Risk:

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against the foreign currencies results in a positive or negative effect on the fair value of investments. The Plan manages the foreign currency risk by limiting its holdings of foreign investments to 46% of the book value of the entire investment portfolio.

## 6. Investment Performance

The University has retained Phillips, Hager & North Ltd. as investment manager of the majority of the investments. The University also contracts with Templeton Management, Bentall Investment Management, and Barclay's Global Investors to be investment managers of specific types of investments.

These investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Plan. It is these long-term investment performance objectives that are used to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire Master Trust portfolio is to out-perform a benchmark portfolio with weightings as follows:

| Asset Class | Representative Index | Weight |
|---|---|---|
| Canadian equities | S&P/TSX Composite Index | 18 % |
| U.S. equities | S&P 500 Index ($C) | 9 |
| U.S. equities | S & P 500 Index - Hedged | 9 |
| Non-North American equities | MSCI EAFE Index ($C) | 18 |
| Real Estate | Investment Property Databank | 6 |
| Bonds | SC Universe Bond Index | 37 |
| Short-term investments | 91 – day T-Bills | 3 |
| | | 100 % |

The University engages the services of Hewitt Associates, asset management consultants, to provide advice on the overall management of the Plan's investments and on the measurement of the Plan's performance. Hewitt Associates reports to the Joint Academic and Administrative and Non-Academic Benefits Committee quarterly on the investment performance in terms of the performance of the benchmark portfolio over moving four-year periods.

The one year investment objective (the return of the benchmark portfolio) was 12.5% (2005 – 9.8%). For the year ending December 31, 2006, the Master Trust/Non-Academic Pension Plan had a gross rate of return of 13.8% (2005 – 9.0%). For the four years ending December 31, 2006, the Master Trust/Non-Academic Pension Plan had an annualized gross rate of return of 11.5% (2005 – 6.1%). The investment objective (the return of the benchmark portfolio) was 10.8% (2005 – 5.9%).

## 7. Related Parties

The Plan is related to the University of Regina and other pension plans sponsored by the University.

The University pays all plan expenses, pension benefits and refunds and transfers on behalf of the Plan, and then is reimbursed by the Plan. Contributions for the federated colleges and Mackenzie Art Gallery are calculated and collected through the University's normal payroll process.